

**LEGISLATIVE SERVICES AGENCY
OFFICE OF FISCAL AND MANAGEMENT ANALYSIS**

301 State House
(317) 232-9855

FISCAL IMPACT STATEMENT

LS 6150

BILL NUMBER: HB 1110

DATE PREPARED: Nov 1, 2001

BILL AMENDED:

SUBJECT: Income Tax Deduction for Military Income.

FISCAL ANALYST: Jim Landers

PHONE NUMBER: 232-9869

FUNDS AFFECTED: X **GENERAL**
DEDICATED
FEDERAL

IMPACT: State & Local

Summary of Legislation: The bill increases an individual's or the individual's surviving spouse's Adjusted Gross Income Tax deduction from the first \$2,000 to the first \$6,000 of income received for active or reserve military service. (The introduced version of this bill was prepared by the Commission on Military and Veterans Affairs.)

Effective Date: January 1, 2003.

Explanation of State Expenditures: The Department of State Revenue (DOR) will incur some administrative expenses related to the revision of tax forms, instructions, and computer programs to incorporate the deduction increase. These expenses can be absorbed given the Department's existing budget.

Explanation of State Revenues: The bill could potentially result in a revenue loss of \$4.2 M to \$4.5 M in FY 2004. The revenue loss is expected to decline slightly in subsequent years.

Background: Under current statute the maximum deduction for income from military service that a taxpayer is entitled to claim is \$2,000. The bill would increase this maximum to \$6,000 beginning in tax year 2003. Data from the Department of State Revenue indicates that 34,386 taxpayers claimed the military service deduction in tax year 1999. These taxpayers deducted approximately \$67.4 M in adjusted gross income. This resulted in a revenue loss of about \$2.3 M in FY 2000. Since 1996, the total amount deducted under the military service deduction has declined by an average of about 2.2% per year. However, the decline from 1998 to 1999 was much lower at 0.7%. Based on these trends, tripling the military service deduction from \$2,000 to \$6,000 in 2003 could potentially reduce Individual Income Tax revenue by \$4.2 M to \$4.5 M in FY 2004. The revenue loss in subsequent years should decline assuming the total amount deducted continues to trend downward by the percentages cited above.

Explanation of Local Expenditures:

Explanation of Local Revenues: Counties imposing any local option income taxes would experience a minimal reduction in revenue generated through these taxes.

State Agencies Affected: Department of State Revenue.

Local Agencies Affected: Counties imposing a local option income tax.

Information Sources: Indiana Department of State Revenue.